

*Consolidated Financial Statements of*

**ENABLENCE TECHNOLOGIES INC.**

*For the three months ended July 31, 2008 and 2007  
(Unaudited)*

# ENABLENCE TECHNOLOGIES INC.

## Consolidated Balance Sheets

	<u>July 31, 2008</u>	<u>April 30, 2008</u>
	(Unaudited)	(Audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$26,646,144	\$ 36,158,934
Short-term investments	11,049,508	11,049,508
Accounts receivable (Note 5)	6,445,479	2,235,526
Investment tax credits receivable	200,000	200,000
Inventories	7,443,443	1,329,641
Prepaid expenses	1,242,355	868,672
Loan receivable	-	1,007,100
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	53,026,929	52,849,381
<b>PROPERTY, PLANT &amp; EQUIPMENT</b>	12,378,449	10,472,953
<b>OTHER ASSETS</b>	133,846	210,440
<b>INTANGIBLE ASSETS</b>	34,202,949	24,146,114
<b>GOODWILL</b>	20,457,931	20,122,292
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	\$120,200,104	\$ 107,801,180
<b>CURRENT LIABILITIES</b>		
Operating line of credit	\$ 700,896	\$ 689,397
Accounts payable and accrued liabilities	6,554,009	2,245,576
Deferred revenue	366,183	-
Current portion of note payable	910,629	626,982
	<hr/>	<hr/>
	8,531,717	3,561,955
<b>NOTE PAYABLE</b>	2,914,011	3,134,910
<b>FUTURE INCOME TAX LIABILITY</b>	6,727,965	7,133,609
	<hr/>	<hr/>
	\$18,173,693	\$ 13,830,474
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	123,338,015	109,574,784
Contributed surplus	6,841,474	6,623,190
Accumulated other comprehensive income (loss)	1,095,860	177,653
Deficit	(29,248,938)	(22,404,921)
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	102,026,411	93,970,706
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	\$ 120,200,104	\$ 107,801,180

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ENABLENCE TECHNOLOGIES INC.

## Consolidated Statements of Loss and Comprehensive Loss

	Three months ended July 31,	
	2008 (Unaudited)	2007 (Unaudited)
Revenue	\$ 7,633,598	\$ 300,706
Cost of sales	5,645,617	144,455
Gross profit	1,987,981	156,251
Operating expenses		
Research and development	3,644,361	1,030,031
General and administration	1,955,551	658,429
Sales and marketing	1,596,287	59,475
Stock-based compensation	340,622	786,520
Amortization of property, plant and equipment and intangible assets	2,025,626	368,662
	9,562,447	2,903,117
OPERATING LOSS	(7,574,466)	(2,746,866)
Interest income	308,968	179,041
Interest expense	(50,907)	-
Foreign exchange (loss) gain	(35,437)	(7,267)
Loss before income taxes	(7,351,842)	(2,575,092)
Recovery of income taxes	(507,825)	(81,500)
NET LOSS	\$ (6,844,017)	\$ (2,493,592)
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	918,207	(445,127)
OTHER COMPREHENSIVE INCOME (LOSS)	918,207	(445,127)
COMPREHENSIVE LOSS	\$ (5,925,810)	\$ (2,938,719)
Net Loss per share		
Basic and diluted	\$ (0.04)	\$ (0.02)
Weighted average number of outstanding shares		
Basic and diluted	175,514,353	117,247,187

See accompanying notes to the consolidated financial statements

# ENABLENCE TECHNOLOGIES INC.

## Consolidated Statement of Shareholders' Equity

	<b>July 31, 2008</b>	<b>July 31, 2007</b>
	(Unaudited)	(Unaudited)
SHARE CAPITAL (Note 6)	\$123,338,015	\$ 31,888,641
CONTRIBUTED SURPLUS		
Balance at beginning of year	6,623,190	4,200,646
Stock options value recognized in year for services provided	340,622	786,520
Warrants exercised	(122,338)	-
	<u>6,841,474</u>	<u>4,987,166</u>
DEFICIT		
Balance at beginning of year	(22,404,921)	(11,035,606)
Net loss	(6,844,017)	(2,493,592)
	<u>(29,248,938)</u>	<u>(13,529,198)</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance at beginning of year	177,653	(300,353)
Adjustment on translation of financial statements of self-sustaining foreign operations	918,207	(445,127)
	<u>1,095,860</u>	<u>(745,480)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 102,026,411</b>	<b>\$ 22,601,129</b>

See accompanying notes to the consolidated financial statements

# ENABLENCE TECHNOLOGIES INC.

## Consolidated Statements of Cash Flows

	<b>Three months ended July 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Unaudited)	(Unaudited)
Cash provided by (used in) operations		
Net Loss	\$(6,844,017)	\$ (2,493,592)
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	2,467,121	429,859
Stock-based compensation	340,622	786,520
Future income taxes	(509,440)	(81,500)
Changes in non-cash operating working capital items		
Amounts receivable	(1,299,015)	(168,674)
Investment tax credits receivable	-	121,283
Inventories	931,441	(122,491)
Prepaid expenses	70,538	(124,895)
Accounts payable and accrued liabilities	587,259	113,843
Operating line of credit	(418,085)	-
Deferred revenues	10,465	-
<b>Cash used in operating activities</b>	<b>(4,663,111)</b>	<b>(1,539,647)</b>
Cash flows from (used in) investing activities:		
Purchase of property, plant and equipment	(714,876)	(52,289)
Loan to Wave 7 Optics, Inc.	1,007,100	-
Acquisition of subsidiaries (Note 8)	(10,594,315)	-
<b>Cash used in investing activities</b>	<b>(10,302,091)</b>	<b>(52,289)</b>
Cash flows from financing activities:		
Net proceeds from issuance of common shares, warrants and options, net of costs	5,480,500	-
<b>Cash provided by financing activities</b>	<b>5,480,500</b>	<b>-</b>
<b>EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH</b>	<b>(28,088)</b>	<b>(9,745)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(9,512,790)</b>	<b>(1,601,681)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>36,158,934</b>	<b>16,350,597</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$26,646,144</b>	<b>\$ 14,748,916</b>
Non-cash financing activities		
Issuance of common shares on acquisition of subsidiary (Note 15)		
Supplementary information:		
Interest received	\$ 142,350	\$ 167,325
Taxes Paid	97,000	-
Cash	7,773,644	574,709
Cash equivalents	18,872,500	14,174,207
<b>Total cash and cash equivalents</b>	<b>\$26,646,144</b>	<b>\$ 14,748,916</b>

See accompanying notes to the consolidated financial statements

# **ENABLENCE TECHNOLOGIES INC.**

## **Notes to the Consolidated Financial Statements**

Three months ended July 31, 2008 and 2007  
(Unaudited)

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### **1. DESCRIPTION OF BUSINESS**

Enablence Technologies Inc. (“the Company”) designs and develops integrated photonic chips and solutions for telecommunications and other applications. Enablence Technologies Inc. (formerly Pacific Northwest Partners Ltd.) was acquired through a reverse takeover by Enablence Inc. on July 24, 2006. Enablence Inc. was incorporated on December 23, 2003 under the Canada Business Corporations Act.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of Presentation*

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada for the preparation of interim financial statements. These consolidated financial statements do not include all of the information and notes required by Canadian GAAP for annual financial statements. These interim financial statements are based upon accounting principles consistent with those used in the annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto for the year ended April 30, 2008.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### *Principles of consolidation*

The consolidated financial statements include the accounts of Enablence Technologies Inc., its wholly owned subsidiaries, Enablence Inc., Enablence Holdings LLC, Albis Optoelectronics AG (“Albis”), Enablence USA Components, Inc. (formerly ANDevices, Inc.) (“Components”) and Enablence USA FTTx Networks, Inc. (formerly Wave7, Optics Inc (“FTTx Networks”). These financial statements have been prepared in accordance with CICA Handbook Emerging Issues Committee Abstract No.10 (“EIC-10”) - *Accounting for Reverse Takeovers* and represent a continuation of the financial statements of Enablence Inc. (the legal subsidiary) and not of Enablence Technologies Inc. (the legal parent - formerly Pacific Northwest Partners Ltd.)

#### *Revenue recognition*

The Company records revenue from product sales to customers at time of shipment, when all significant contractual obligations have been satisfied, when the price to the customer is fixed and determinable and collection is reasonably assured. Amounts billed or paid in excess of revenue recognized are recorded as deferred revenue.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Cash and cash equivalents*

The Company considers all highly liquid investments with original maturity of three months or less at time of acquisition to be cash equivalents.

*Short-term investments*

Short-term investments consist of liquid investments with original maturity dates of between three months and one year at time of acquisition.

*Inventories*

Finished goods are valued at the lower of cost and net realizable value. Work in process and raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis. The Company assesses the valuation on a quarterly basis and writes down the value for estimated excess and obsolete inventory based upon estimates of future demand.

*Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the carrying amounts and the tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws. Future income tax assets are recognized only to the extent that it is more likely than not, in the opinion of management, that the future tax assets will be realized in the future.

*Investment tax credits*

Investment tax credits are recorded as a reduction of the related expense or as a reduction of the cost of the related asset. The benefits are recognized when the Company has complied with the terms and conditions of applicable tax legislation provided there was reasonable assurance of realization.

*Property, plant and equipment*

Property, plant and equipment are recorded at cost. Amortization is calculated over the anticipated useful lives of the assets at the following rates:

Machinery and equipment	12 years straight-line and 7 years diminishing balance
Lab equipment and tooling	3 years straight-line
Office furniture and equipment	3 years straight-line and 7-10 years diminishing balance
Manufacturing and test equipment	5 years straight-line
Software	2 years straight-line and 3 years straight-line
Photomasks	3-5 years diminishing balance
Leasehold Improvements	10 years or term of lease

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Intangible assets*

Intangible assets, consisting of intellectual property, customer relationships and brand name, resulting from the acquisitions of Albis, Components and FTTx Networks and the assets of DuPont Photonics Technologies LLC (“DuPont Photonics”) are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. Acquired intangible assets are amortized on a straight-line basis over five years based on expected future life.

Intangible assets also include patents. Costs incurred to acquire patents are recorded at cost and amortized over ten years, the expected useful life of the patents.

*Goodwill*

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and intangible assets acquired and liabilities assumed. Goodwill is allocated to the Optical Components and Subsystems segment. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested in the fourth quarter of each fiscal year.

*Impairment of long-lived assets*

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. There is no impairment in the current year.

*Research and development costs*

Current research costs are expensed as incurred. Expenditures for research and development equipment, net of related investment tax credits, are capitalized. Development costs are deferred and amortized when the criteria for deferral under generally accepted accounting principles are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

*Use of accounting estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates. Significant estimates in the accompanying financial statements relate to investment tax credits, allowance for doubtful accounts, inventory provisions, inventory valuation, asset impairments, accruals, stock based compensation, the

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

estimated useful lives and valuation of property, plant and equipment, future income taxes, intangible assets and goodwill.

*Stock-based compensation plans*

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, which establishes standards for the recognition, measurement and disclosure of stock-based compensation. Under this section, stock options are measured and recognized using a fair value based method.

*Foreign currency translation*

The Company has entered into certain transactions in foreign currencies. These transactions are converted to Canadian dollars at the exchange rate in effect at the time the transaction occurs. Monetary assets and liabilities, which are denominated in currencies other than Canadian dollars, are translated to Canadian dollars at period-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the determination of net loss.

Enablence Holdings LLC, is considered to be an integrated foreign operation and as a result the financial statements of this subsidiary are translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end and resulting gains or losses are recorded in the statement of loss. Enablence Holdings LLC was dissolved and a certificate of cancellation was issued on May 8, 2007.

Albis, Components and FTTx are considered to be self-sustaining foreign operations and as a result the financial statements of these subsidiaries are translated into Canadian dollars using the current rate method of foreign currency translation. Under this method assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date and revenues and expenses are translated at the average rate of exchange for the period. Gains and losses resulting from translation of the accounts are recorded in equity as accumulated other comprehensive income or loss.

*Financial Instruments*

Effective May 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The adoption of the new standards requires classifying all financial assets and liabilities into categories that have prescribed accounting treatments. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

**Held-for-trading**

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income. The Company has designated its cash and cash equivalents and short-term investments as held-for-trading.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value recorded as other interest expense. These are accounted for in the same manner as held-for-trading assets. The Company has not designated any non-derivative financial liabilities as held-for-trading.

**Held-to-maturity**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest rate method. The Company has not designated any financial assets as held-to-maturity.

**Available-for-sale**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income. Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost. The Company has not designated any of its financial assets as available-for-sale.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest rate method. The Company has designated its accounts receivable and loans receivable as loans and receivables.

Other financial liabilities

Other financial liabilities are recorded at amortized cost using the effective interest rate method and include all financial liabilities, other than derivative instruments. The Company has designated its accounts payable, accrued liabilities and note payable as other financial liabilities.

Transaction Costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest rate method.

Effective interest rate method

The Company uses the effective interest rate method to recognize interest income or expense which includes transactions costs or fees, premiums or discounts earned or incurred for financial instruments.

Comprehensive Income

The new standards also introduce a new measurement of results called comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-shareholder sources. It includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net earnings and other comprehensive income (OCI). OCI refers to changes in net assets from certain transactions and other events and circumstances, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. OCI includes the unrealized gain or loss on translating the financial statements of self-sustaining foreign operations. A statement of comprehensive loss has been included in the financial statements.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**3. CHANGES IN ACCOUNTING POLICIES**

*Inventories*

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories*. This section provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

*Financial Instruments*

Effective May 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*, which replaces Handbook Section 3861, *Financial Instruments Disclosure and Presentation*. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

The adoption of these new Handbook sections did not have a material impact on the Company's consolidated financial statements. The new disclosures pursuant to these Sections are included in Note 9.

*Capital Disclosures*

Effective May 1, 2008, the Company adopted the new CICA standard, Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about a company's capital and how it is managed. The required disclosure of information about the Company's objectives, policies and processes for managing capital is included in Note 10.

**4. FUTURE ACCOUNTING CHANGES**

*International Financial Reporting Standards*

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit oriented enterprises that are responsible to large or diverse groups of stakeholders. The official change-over date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

**ENABLENCE TECHNOLOGIES INC.**  
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*Goodwill and Intangible Assets*

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Handbook Sections 3062, *Goodwill and Other Intangible Assets* and 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to the financial statements relating to fiscal years beginning October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning May 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets by profit-oriented enterprises. The company is currently evaluating the impact of Section 3064 on its financial statements.

**5. ACCOUNTS RECEIVABLE**

	<u>July 31, 2008</u>	<u>July 31, 2007</u>
Trade	\$ 5,981,505	\$ 220,101
Other	191,329	171,663
Accrued	<u>272,645</u>	<u>48,902</u>
	<u>\$ 6,445,479</u>	<u>\$ 440,666</u>

**6. SHARE CAPITAL**

On July 24, 2006, the Company entered into a reverse take over transaction with Pacific Northwest Partners Ltd. In legal form, Enablence Inc. became a wholly owned subsidiary of Pacific Northwest Partners on that date, however, the effect of the transaction was such that the existing shareholders of Enablence Inc. have become the majority owners of Pacific Northwest Partners Ltd., giving rise to a reverse take over. Pacific Northwest Partners Ltd. subsequently changed its name to Enablence Technologies Inc. (the Company). This transaction was accounted for as a reverse takeover not constituting a business combination.

**ENABLENCE TECHNOLOGIES INC.**  
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Authorized  
Unlimited number of common shares

<u>Issued</u>	Number of common Shares	Amount
<b>April 30, 2007</b>	117,247,187	\$ 31,888,641
Issued for cash, net of \$3,848,788 issuance costs	42,592,665	53,651,212
Fair value of broker warrants issued, recorded as Issuance costs		(753,660)
Issued on exercise of options	2,028,000	1,185,997
Issuance costs	-	(31,500)
Exercise of broker warrants	1,738,067	1,230,761
Issued for acquisition of ANDevices, Inc.	9,085,113	22,403,333
<b>April 30, 2008</b>	172,691,032	\$109,574,784
Exercise of broker warrants	1,000,000	492,336
Issued for acquisition of Wave7 Optics, Inc. (Note 8)	2,078,385	3,547,250
Issued for acquisition of Dupont Photonics (Note 8)	6,847,638	9,723,645
<b>July 31, 2008</b>	182,617,055	\$123,338,015

*Warrants*

Each share purchase warrant entitles the holder to purchase one common share of the Company. A summary of the share purchase warrants outstanding and the changes during the period is presented below:

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**6. SHARE CAPITAL (Continued)**

	Three months ended July 31,			
	2008		2007	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of Period	3,579,570	\$0.79	4,039,858	\$ 0.47
Issued	-	-	-	-
Exercised	(1,000,000)	\$0.37	-	-
Outstanding, end of period	2,579,570	\$ 0.94	4,039,858	\$ 0.47
Exercisable, end of period	2,579,570	\$ 0.94	4,039,858	\$ 0.47

The following table summarizes information for warrants outstanding:

	Expiry	July 31, 2008	July 31, 2007
\$ 0.37	May 24, 2008	-	2,289,858
\$ 0.60	March 1, 2009	1,400,000	1,750,000
\$ 1.35	April 25, 2009	1,179,570	
		2,579,570	4,039,858

*Stock option plan*

The Company has established a stock option plan applicable to directors, officers, employees, and consultants and authorized 23,400,000 common shares for issuance thereunder. The options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options granted prior to September 7, 2007 generally vest in four equal portions during the first year and expire on the earlier of the 10<sup>th</sup> anniversary of the grant date or termination of employment. Options granted after September 7, 2007 and before March 18, 2008 generally vest in four equal portions during the first eighteen months and expire on the earlier of the 10<sup>th</sup> anniversary of the grant date or termination of employment. Options granted on or after March 18, 2008 generally vest in four equal portions starting one year after the date of grant.

A summary of the status of the Company's stock options and changes during the periods is presented below:

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**6. SHARE CAPITAL (Continued)**

	Options	Weighted Average Exercise Price
Options outstanding, April 30, 2007	12,208,000	\$ 0.56
Granted	2,550,000	\$ 2.24
Exercised	(2,028,000)	\$ 0.42
Forfeited	(150,000)	\$ 1.65
Options outstanding, April 30, 2008	12,580,000	\$ 0.91
Granted	300,000	\$ 1.54
Options outstanding July 31, 2008	12,880,000	\$ 0.92

The following table summarizes the options outstanding and exercisable as at July 31, 2008:

Options Outstanding			Options Exercisable	
Exercise Price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$)
\$ 0.37	4,010,000	7.98	4,010,000	\$ 0.37
0.50	2,640,000	8.38	2,640,000	0.50
0.80	2,955,000	8.60	2,955,000	0.80
1.37	675,000	8.67	675,000	1.37
2.30	1,950,000	9.52	-	2.30
2.39	350,000	9.63	-	2.39
1.45	100,000	9.77	-	1.45
1.59	200,000	9.92	-	1.59
<b>\$ 0.92</b>	<b>12,880,000</b>	<b>8.33</b>	<b>10,280,000</b>	<b>\$ 0.59</b>

Under the fair value method, the Company calculates the fair value of stock option grants at the date of granting, and amortizes that fair value as compensation expense over the vesting period of those grants and awards. The fair value is determined using the Black-Scholes option pricing model and the following assumptions used during the year:

	July 31, 2008	April 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	April 30, 2007	Jan. 31, 2007	Oct. 31, 2006
Risk-free interest Rate	3.19%	3.07%	4.04%	4.00%	4.66%	3.98%	3.95%	4.00%
Expected life of Options(years)	4	4	3	3	3	3	3	3
Expected annualized volatility	75%	77%	75%	75%	80%	80%	50%	55%
Expected dividend Yield	-%	-%	-%	-%	-%	-%	-%	-%

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**6. SHARE CAPITAL (Continued)**

*Stock option plan (Continued)*

During the three-month period ended July 31, 2008 stock-based compensation expense was \$340,622. Stock-based compensation expense during the three-month period ended July 31, 2007 was \$786,520. Stock-based compensation is recorded as an increase to contributed surplus.

**7. LOSS PER SHARE**

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing the net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. As result of the net losses in each of the reporting periods, the potential effect of the exercise of stock options was anti-dilutive; therefore, potentially dilutive shares have not been included in the calculation of diluted loss per common share for the three-month periods ended July 31, 2008 and July 31, 2007.

**8. ACQUISITIONS**

**Wave7 Optics, Inc.**

On May 5, 2008, the Company acquired all of the outstanding shares of Wave7 Optics, Inc. ("Wave7") for consideration of US\$10,500,000 or \$10,568,290 in cash and 2,078,385 common shares valued at \$1.71 per share or \$3,547,250 plus \$235,062 of transaction costs. Wave7 is a global provider of Fiber to the Home ("FTTH") systems that deliver voice, video, and data services.

The acquisition was accounted for by the purchase method, whereby the results of operation of the acquired company are included in the consolidated statements of earnings and cash flows since the acquisition date. The net purchase price of \$14,350,602 was allocated based on the fair value of the net identifiable assets acquired. This allocation resulted in an excess of the fair value of the net identifiable assets over the cost of the purchase, which is sometimes referred to as negative goodwill. The negative goodwill was allocated on a pro-rata basis to the fair value of the long-term tangible and intangible assets acquired.

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**8. ACQUISITIONS (Continued)**

Purchase Price

Investment of cash	\$ 10,568,290
Issuance of 2,078,385 Enableness shares	3,547,250
Transaction costs	<u>235,062</u>
	<u>\$ 14,350,602</u>

The following table summarizes the net assets acquired based on estimated fair values.

Assets acquired:	
Cash	287,448
Accounts receivable	2,590,139
Inventory	5,697,639
Prepays and deposits	362,918
Property and equipment	538,856
Intangible assets	9,094,635
	<u>18,571,635</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	2,050,592
Loans	1,822,152
Deferred revenue	348,289
	<u>4,221,033</u>
<hr/>	
Total purchase price consideration	<u>\$ 14,350,602</u>

The value assigned to identifiable intangible assets is attributable to existing customer relationships. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

**DuPont Photonics Technologies LLC**

On July 31, 2008, the Company acquired certain assets of DuPont Photonics Technologies LLC ("DuPont Photonics"), a wholly owned subsidiary of E.I. du Pont de Nemours and Company ("DuPont") valued at \$4,613,145 in exchange for 3,248,694 common shares of Enableness, valued at \$1.42. Concurrent with the closing of the transaction, DuPont completed a US\$5 million or \$5,110,500 investment in the Company, in consideration of which Enableness issued 3,598,944 common shares, valued at \$1.42.

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**8. ACQUISITIONS (Continued)**

<u>Purchase Price</u>	
Issuance of 3,598,944 Enablence shares for cash	\$ 5,110,500
Issuance of 3,248,694 Enablence shares for assets	4,613,145
Transaction costs	<u>78,411</u>
	<u>\$ 9,802,056</u>

The following table summarizes the assets acquired based on estimated fair values.

Assets acquired:	
Cash	\$ 5,110,500
Inventory	1,258,000
Production equipment	1,239,000
Intangible assets	<u>2,194,556</u>
	<u>\$ 9,802,056</u>

The value assigned to identifiable intangible assets is attributable to existing customer relationships and intellectual property. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

In accordance with CICA Section 1581, *Business Combinations*, the Company has one year to make adjustments to the purchase price allocations at which time the purchase prices will be finalized.

**9. FINANCIAL INSTRUMENTS**

*Financial assets and financial liabilities*

Financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments

	<u>July 31, 2008</u>	<u>April 30, 2008</u>
Held-for-trading (1)	\$ 37,695,652	\$ 47,208,442
Loans and receivables (2)	\$ 6,645,479	\$ 3,442,626
Other financial liabilities (3)	\$ 7,254,905	\$ 2,934,373

(1) Includes cash and cash equivalents and short-term investments

(2) Includes accounts, loan and investment tax credits receivable

(3) Includes accounts payable and accrued liabilities but not note payable included in liquidity risk

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**9. FINANCIAL INSTRUMENTS (Continued)**

*Fair value*

Cash and cash equivalents and short-term investments are measured at fair value with changes in fair value recorded in net income. All other financial assets and liabilities are measured at amortized cost. Due to the short term nature of these financial assets and liabilities, their fair value approximates amortized cost.

*Credit risk*

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and amounts receivable. The Company primarily invests its excess cash in high quality financial instruments. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. As at July 31, 2008, one customer accounted for 31% of the accounts receivable balance.

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses.

The allowance for doubtful accounts provision and past due receivables are reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined not to be collectable.

The ageing of trade accounts receivable (net of an allowance of \$102,729) is summarized as follows:

	July 31, 2008
Current	\$4,910,967
61 to 90 days	229,188
91 days and over	841,350
<b>Total trade accounts receivable</b>	<b>\$5,981,505</b>

Of the \$841,350 of accounts receivable outstanding for 91 days and over, \$354,760 relates to a specific customer that negotiated payments terms of 150 days. This account is atypical of the Company's standard accounts receivable policy. Of the amounts outstanding 91 days or more, \$345,936 has since been collected.

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**9. FINANCIAL INSTRUMENTS (Continued)**

*Interest rate risk*

The Company has some interest rate risk as its U.S. dollar denominated long-term debt has a variable interest rate based on the Wall Street Journal prime rate. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

*Foreign currency risk*

The Company operates internationally with subsidiaries in Switzerland and the United States and is therefore subject to foreign currency risk. The Company incurs expenses and earns revenues in US dollars, Euros, Swiss francs and Japanese yen. However, the majority of the transactions are in US dollars so that the major exposure is from fluctuations in the value of the Canadian dollar relative to the US dollar. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the following currencies against the Canadian dollar would have increased losses from operations by the amounts shown below:

	July 31, 2008
USD	\$454,800
CHF	4,480

*Liquidity Risk*

Liquidity risk is the risk that Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

At July 31, 2008, the Company has one long-term financial liability, payment of which is due as follows including interest:

	<b>Remainder of 2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Note payable	\$ 738,142	1,205,286	1,205,286	1,104,846	\$4,253,560

Management monitors consolidated cash flow, in detail, on a weekly basis. Based on the financial liabilities due and noted above, the Company expects to have sufficient

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operating cash flow exceeding the amounts due.

**10. CAPITAL DISCLOSURES**

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business through organic growth and selective acquisitions.

Management defines capital as the Company's total shareholders' equity. In order to maintain or adjust its capital structure, the Company could issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or raise debt. To date, no dividends have been paid to the Company's shareholders.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**11. SEGMENTED INFORMATION**

The Company has two reportable segments: FTTx Networks and Optical Components and Subsystems.

The Company's reportable segments are strategic business units comprised of different products and services. The Company uses these segments as a primary basis of internal reporting, planning, performance analysis and decision making. The products and services of each reportable unit require different technology and marketing strategies. Revenue and gross profit by reportable segment is presented in the following table:

	Three months ended July 31, 2008		July 31, 2007	
	Revenue	Gross Profit	Revenue	Gross Profit
Reportable segment:				
FTTx Networks	\$4,774,836	\$1,509,058	\$ -	\$ -
Optical Components and Subsystems	2,858,762	478,923	300,706	156,251
	\$7,633,598	1,987,981	\$300,706	\$156,251

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**11. SEGMENTED INFORMATION (Continued)**

Revenue and assets are segregated geographically as follows:

	Three months ended			
	July 31, 2008	July 31, 2007	July 31, 2008	July 31, 2007
	Revenue		Property, plant and equipment and goodwill	
North America	\$ 4,331,503	\$ 221,190	\$ 29,842,317	\$ 763,183
Asia Pacific	1,556,642	37,693	-	-
Europe	1,745,453	41,823	2,994,062	2,845,062
	\$ 7,633,598	\$ 300,706	\$ 32,836,379	\$ 3,608,245

Revenues are attributed to geographical location based on customer.

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current presentation.

**13. SUBSEQUENT EVENTS**

There were no reportable events subsequent to the quarter end.